



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 7/7/2004

GAIN Report Number: TU4017

Turkey

Cotton and Products

Annual

2004

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Report Highlights:

MT 2004 area and production is projected at 715,000 hectares and 925,000 MT, slightly above last year's estimates. Domestic consumption is expected to rebound in MY 2004 to 1.35 MMT following steps by the government to stop low priced yarn and fabric imports. Total imports during the first seven months off MY 2003 reached 246,400 MT. U.S. cotton imports constitute more than fifty percent of total imports.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Ankara [TU1]
[TU]

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Executive Summary

MY 2004 cotton area and production are projected at about 715,000 hectares and 925,000 MT, up marginally compared to last year. Cotton production is continuing to increase gradually in the Southeast Anatolian (GAP) region due to an increase in irrigated land. In other regions, it is continuing to decline due to ecological problems and better returns for other crops. Observers continue to think that cotton production will fluctuate between 900,000 MT and 1 MMT for years to come. Expansion in the GAP region just compensates for the declining area in traditional cotton growing areas, particularly the Cukurova and to a lesser degree, the Aegean regions. Expansion of the irrigation network in the GAP has slowed due to a lack of funds. Annual expansion is only about 20,000 hectares, while the total target area that remains to be irrigated is over 1 million hectares.

Consumption in MY 2004 is expected to rebound to 1.35 MMT from 1.27 MMT in MY 2003 due to measures taken by the GOT to stop the in flow of low priced yarn and fabric from the FSU and Asian countries. Previously, Turkish mills were granted a tax benefit if they processed imported yarn and re-exported the final products. Turkey is also taking measures to monitor low-quality yarn imports and control cases of under-invoicing.

Official trade data for the first seven months of MY 2003 show total imports of 246,000 MT of which 128,080 MT were U.S. origin. Based on current trends, post is projecting imports at 450,000 MT during MY 2003. Given minor increase in production and higher level of consumption, imports are expected to be higher in MY 2004. Total Turkish cotton exports during the same period were 58,000 MT. E.U. member countries continue to be the most important buyers of Turkish cotton.

The United States continues to be the leading cotton supplier to the Turkish market during the current marketing year. This is due to the quality of U.S. cotton and the availability of GSM-102 credit guarantees. Total marketing year-end U.S. cotton imports are expected to reach 300,000 MT making Turkey one of the leading importers of U.S. cotton. Geographical proximity helped Greece and Syria to become important cotton suppliers to Turkey as well.

PSD Table
Turkey
Cotton

	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		08.2002		08.2003		08.2004	MM/YYYY
Area Planted	0	700000	0	710000	0	715000	(1000 HA)
Area Harvested	700000	700000	710000	710000	0	715000	(1000 HA)
Beginning Stocks	315704	226147	280650	193925	237104	203925	(MT)
Production	909879	910000	892679	900000	0	925000	(MT)
Imports	493151	493104	478998	450000	0	475000	(MT)
TOTAL SUPPLY	1718734	1629251	1652327	1543925	237104	1603925	(MT)
Exports	66407	65326	65318	65000	0	50000	(MT)
USE Dom. Consumption	1371677	1370000	1349905	1275000	0	1350000	(MT)
Loss Dom. Consumption	0	0	0	0	0	0	(MT)
TOTAL Dom. Consumption	1371677	1370000	1349905	1275000	0	1350000	(MT)
Ending Stocks	280650	193925	237104	203925	0	203925	(MT)
TOTAL DISTRIBUTION	1718734	1629251	1652327	1543925	0	1603925	(MT)

Production

Cotton planting is continuing in all regions. Up to two weeks of late planting is reported in the Southeast Anatolian (GAP) region due to excessive rains. Turkish MY 2004 cotton area and production are forecasted about 715,000 hectares and 925,000 MT. Lack of production planning, an unbalanced crop support system and protectionist customs duties for alternative crops are adversely affecting domestic cotton production. Even though world cotton prices increased last fall, recent changes in world prices and better returns for corn – which is supported by high customs duties - made cotton planting less attractive for farmers.

Cotton production in major the areas -Southeast Anatolia (GAP), Aegean, Cukurova and Antalya - are continuing to face various challenges and increasing competition from other crops. In the Aegean region farmers who are not happy with their return are reportedly planting vegetables and grapes. In the Cukurova region, the increased cost of production due to ecological problems is forcing farmers to switch to a wheat/corn double-crop rotation and some farmers prefer wheat in the GAP region. Finally, in Antalya, cotton fields are under pressure from residential and tourism developments. Overall, a slight increase in cotton production in the GAP region will barely compensate for the declines in all other regions.

Production General

Most of the Turkey's cotton is planted between mid-March and mid-May and harvested from mid-August through November. The crop is grown in three main areas; the Aegean region, Cukurova and Southeastern Anatolia. Small amounts of cotton also are produced around Antalya and Antakya. The most popular variety in the Aegean region is "Nazilli 84"; in Cukurova "Carolina Queen", "Delta Pine", and "BA 119", "Stone Mill"; and "Diyarbakir Gold" is the most popular variety in the Southeast. Aegean cotton generally is considered to be the best quality and is preferred by the local textile industry. Aegean cotton is longer (1 1/8") than cotton from Cukurova (1 3/32") and other regions.

Virtually all of Turkey's cotton is handpicked. The high cost of labor, - estimated at about forty percent of total production - continues to be an obstacle. As a result, farmers are either shifting to less capital-intensive crops or searching for ways to shift to machine harvesting. However, the size of an average cotton farm in Turkey renders modern harvesting machines impractical due to their high cost. In place, tractor-pulled cotton picking machines are used in increasing number. However, the total amount of machine picked cotton in Turkey is still a small fraction of total production.

All of Turkey's estimated five hundred gins are privately owned. The great majority of the gins in the Aegean region are roller gins, more suitable for longer staple cotton, while about half of the gins in Cukurova and the Southeast are roller gins and half are saw gins. The ginning rate averages about 42 percent in the Aegean region and about 39 percent in Cukurova. Ginners generally purchase seed cotton directly from growers, playing an important role in domestic marketing. Lint generally is graded and certified by the government-regulated inspectors at the gins, using the green card system. Domestic regulations require that all locally produced cotton be ginned before the end of April.

Consumption

The textile industry is one of the most important and dynamic sectors in the Turkish economy, accounting for 7 percent of the GNP, 22 percent of the industrial employment and 33 percent of total exports. Total spinning capacity is estimated at about 1.85 MMT, of which 1.5 MMT is for cotton and the remainder is for synthetics.

In MY 2003 consumption declined about seven percent to 1.27 MMT due to cheap yarn imports from FSU and low priced fabric imports from China, India and Pakistan. High world

cotton prices and the appreciation of the Turkish lira against the US dollar - affecting textile exports - were other reasons for the consumption decline. Lack of demand in export and domestic markets and high world cotton prices reportedly forced yarn mills in Southeast Anatolia to give short breaks to production to prevent losses that can be generated due to increased stocks.

The recent devaluation of the Turkish lira against major currencies (about ten percent in the last two weeks) and measures taken by the government to stop the inflow of low priced yarn and fabric imports is expected to push utilization higher in MY 2004.

The Turkish textile industry is facing increasing competition from China and Southeast Asian countries (India, Pakistan, Bangladesh) in export markets. It is reported that Turkish textile exports to the U.S. are stagnating due to increased competition from these countries. The worldwide free flow of textile products in 2005 is a real concern for Turkish mills since the cost of production, including electricity and labor, is higher in Turkey compared to newly emerging textile-producing countries. Turkish mills are continuing to invest either to increase capacity and or to integrate to increase value of their products in order to remain competitive. The future of Turkey's textile industry will depend on how well Turkish mills adjust to the new conditions after 2005.

Consumption Subcategory-Marketing Channels

The bulk of the cotton is sold directly to mills and the remainder is traded on a spot basis, mainly at the exchange in Izmir. The Izmir exchange also trades some cotton from other regions and countries. There are smaller spot markets in Adana and the Southeast. The new cotton futures market in Izmir is expected to start operating in this fall since the legal and psychical preparations are about to be finalized.

Trade

Official Turkish Trade data is only available through February 2004. According to this data, Turkey's cotton imports reached 246,000 MT during the first seven months of the marketing year, of which 128,080 MT was from the United States. Marketing year-end imports are expected to reach 450,000 MT. Turkish total cotton exports during the same period were 58,000 MT but 21,000 MT were to various Turkish Free Trade Zones. Some cotton exported to the free trade zones is expected to be imported back in to the country. Italy, Germany, and Portugal were among the main export destinations for Turkish cotton.

U.S. cotton continues to have a large share of the market due to consistent quality and the availability of the GSM-102 Export Credit Guarantee Program. U.S. trade data indicate that about 275,000 MT were exported or registered as sales to Turkey during the first nine months of the marketing year. Greece and Syria continue to be important suppliers due to geographical proximity.

Turkish Textile exports continued to increase in MY 2003 despite the over-valued Turkish Lira. Turkish Textile exports to the United States are reported to lose pace due to the strong Turkish Lira and Chinese competition. However, exports to the E.U. are continuing to increase due to geographical proximity and fast turn-around of the Turkish textile industry to European orders.

Given the high cost of production, competition of other crops and the slow pace of development of the GAP, Turkey is expected to remain a net cotton importer for many years to come.

Import Trade Matrix

Country Turkey
Commodity Cotton

Time Period **MY2003** Units: **Metric tons**

Imports for: **Aug/Feb** **#VALUE!**

U.S. **128084** U.S.

Others Others

Greece	57727		
Syria	22155		
MFTZ	8691		
Turkmenistan	8454		
Iraq	5288		
Egypt	3005		
Azerbaijan	2617		
Israel	2099		
Australia	1886		
Tajikistan	1826		

Total for Others 113748 0

Others not Listed **4372**

Grand Total 246404 0

Export Trade Matrix

Country

Turkey

Commodity

Cotton

Time Period

MY2003

Units:

Metric tons

Exports for:

Aug/Feb

#VALUE!

U.S.

U.S.

Others

Others

Mersin Free Trade Zone	16886		
Italy	6822		
Bangladesh	3680		
Germany	3220		
Portugal	2927		
China	2824		
France	2738		
Kayseri Free Trade Zone	2593		
Netherlands	2242		
Europe Free Trade Zone	1960		

Total for Others 45892 0

Others not Listed 12516

Grand Total 58408 0

Stocks

There are no official stock estimates. Turkish mills preferred to maintain stocks at minimal levels due to the high cost of financing (approximately 2 percent per month). In general this policy works to their advantage during the first half of the marketing year when local supply is abundant and prices are low. However, it also makes them vulnerable to price increases in the world market, as happened during the first half of the marketing this year, as well as to speculative price increases in the local market during the second half of the marketing year.

Policy**Production Policy**

About one third of the Turkish population lives in rural areas and earns the bulk of its income from farming. Therefore, agriculture and rural development are still top priorities for the government. The massive investments in the GAP are probably the best example of this policy. The farmers' cooperatives, TARIS, Cukobirlik and Antbirlik have historically provided their members with low-cost loans, seed and fertilizer and are supposed to buy members' cotton at announced prices. However, since the last crises in 2000 and as a part of the IMF economic reform program they became more independent and are not permitted to operate at a loss necessitating funds from the treasury. TARIS, located in the Aegean region, continues to play an important role buying and selling cotton. The role of Cukobirlik in the Cukurova region, however, has been declining.

The GOT last week announced a TL 90,000 (approx. US\$ 0.06) per kilogram production bonus for seed cotton for the MY 2003 crop. The aim of the government is to keep cotton and cotton products within the registered economy and support production. The cotton bonus payments for MY 2003 crop are expected to take place in September during the harvest of the MY 2004 crop. Early in the season, the GOT announced a TL 120,000 per kilogram bonus for seed cotton for MY 2004. Farmers' representatives were not happy with the amount and declared that such low support and late payment will not make cotton farming attractive.

There are no specific government input subsidies for cotton. Last year the GOT issued TL equivalent of 2.6 liters of fuel support per dekar (currently about US\$ 3.00 per dekar) for all farmers (all crops) which is not very significant for cotton since per dekar fuel consumption for cotton farming is estimated at about 21 liters. It is not certain yet if the program will be repeated this year or not.

As with all crops, subsidized credits from the Turkish Agricultural Bank and subsidies on the cost of all fertilizers stopped in October 2001. Irrigation water is provided by the State Irrigation Authority (DSI) for a fee but there is a continuing debate whether the price of water is below its actual cost. Pesticides are commercially available.

The Government of Turkey just recently announced its direct income support payment system, which has been intended to replace all other price support and indirect support measures. According to the Official Gazette dated May 13, 2004, farmers will receive direct payments of 16 million TL, or approximately USD10 per dekar for up to 500 dekar.

As of May 13, 2004, TL 1,535,000=USD 1

Trade Policy

According to the 2004 import regime, cotton imports from all sources remain duty-free.

Marketing

U.S. cotton enjoys a good reputation among Turkish spinners due to its consistent quality and the reputation of the United States as a reliable supplier. Marketing and promotion activities done by the CCI and CI as well as use of the Cochran program executed by FAS has helped to maintain high awareness among the Turkish mill owners. Timely seminars on the U.S. cotton and GSM are continuing to generate a great deal of interest and demand for U.S. cotton.

TURKEY'S YARN AND FABRIC TRADE (1000 kg)						
	EXPORTS			IMPORTS		
	2001	2002	2003	2001	2002	2003
Cotton Yarn (MT)	109,732	73,452	91,125	29,524	48,565	92,250
Cotton Fabric (1)	19,845	21,909	20,870	10,794	26,330	47,590
Cotton Fabric (2)	60,572	61,635	62,002	46,077	75,649	72,760
(1) Cotton Fabric LTE <200 grm per SQ mtr (2) Cotton Fabric GT >200 grm per SQ mtr						